

MATHIS, RIGGS & PRATHER, P.S.C.

ATTORNEYS AT LAW
500 MAIN STREET, SUITE 5
SHELBYVILLE, KENTUCKY 40065

C. LEWIS MATHIS, JR.
T. SHERMAN RIGGS
DONALD. T. PRATHER
NATHAN T. RIGGS

TELEPHONE: (502) 633-5220
FAX: (502) 633-0667

E-MAIL: mxp@iglou.com

August 22, 2007

Beth O'Donnell, Executive Director
Kentucky Public Service Commission
211 Sower Blvd
P.O. Box 615
Frankfort, KY 40602

RECEIVED

AUG 22 2007

PUBLIC SERVICE
COMMISSION

Re: Surcharge Interim Options

Dear Ms. O'Donnell:

This office represents North Shelby Water Company ("North Shelby"). North Shelby wishes to express its opinion regarding the three options:

1. North Shelby supports Option 1, under which the Commission would disregard the Opinion and Order and continue to process interim rate matters as it has for decades;
2. North Shelby opposes Option 2, under which the Commission would strictly apply Judge Shepherd's view that the Commission lacks any implied authority to process interim rate cases and therefore discontinue consideration of all such matters;
3. North Shelby would only support Option 3 if the Commission rejects Option 1. Option 3 is for the Commission to continue to approve interim rate matters but make all such approval subject to future refund by the utility.

North Shelby has three wholesale water suppliers. Louisville Water Company ("Louisville") increases its rates every year. The Frankfort Electric and Water Plant Board ("Frankfort") and the Shelbyville Municipal Water & Sewer Commission ("Shelbyville") raise rates less frequently. During calendar year 2007, North Shelby has already received notice of rate increases by all three utilities, with those rate increases scheduled to occur at widely varying times. North Shelby was able to accept two of the three rate increases without significant financial harm by utilizing the pass-through rate increase process. North Shelby opposed Frankfort's rate increase and that increase has not yet occurred.

If the Commission chooses any option other than Option 1, North Shelby will be forced to have at least one general rate increase case every year just to handle wholesale water rate increases from Louisville.

North Shelby will also have to have a general rate increase each time Frankfort or Shelbyville raises its rates unless those rate increases by chance happen to become effective at the same time. This unacceptable result would subject North Shelby customers to the unacceptable expense of frequent general rate increases.

North Shelby would have to hire additional staff to handle the additional administrative burden. Outside legal, engineering and accounting expenses would increase significantly. The Commission itself does not have sufficient staff to process such frequent general rate increase cases and North Shelby would incur additional fees charged by the Commission to support the additional overhead.

In addition to pass-through rate increases based upon wholesale supply price increases, North Shelby has numerous non-recurring charges which are increased from time to time outside the context of a general rate increase. Those include the meter installation fee (a/k/a tap-on fee), bad check fee, disconnect fee, reconnect fee, etc. Unless the Commission adopts Option 1, each of these would have to be the subject of a general rate increase case which is obviously not acceptable.

North Shelby wishes to emphasize to the Commission that the Opinion and Order is only the opinion of one judge. Furthermore, it is not final, having been appealed. It flies in the face of decades of appellate court recognition of the Commission's inherent authority to allow interim rate increases outside the context of a general rate case. We are confident that Judge Shepherd's Opinion and Order will be reversed upon appeal, and even if it is not, we are likewise confident that the General Assembly will pass a statute during the 2008 general session, which will grant the Commission express authority for interim rate reviews of the type discussed in this letter.

Thank you very much for your consideration of the opinions set forth in this letter.

Yours Truly,

MATHIS, RIGGS & PRATHER, P.S.C.

By 

Donald T. Prather

DTP/pm

Enclosure

CC: Duncan LeCompte, President

Darrell Dees, Manager

Sandy Broughman, Engineer

Dtp/wtr/nswc/rate/psc ltr